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RHMFIUHQ USCENTCOM MACDILL AFB FL

RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC

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DEPT FOR SCA/RA, SCA/A, EEB, EEB/ESC/IEC (GRIFFIN)

DEPT PASS AID/MARK WARD, AID/ANE, OPIC

DEPT PASS USTR FOR LILIENFELD AND KLEIN

DEPT PASS OPIC FOR ZAHNISER

DEPT PASS TDA FOR STEIN AND GREENIP

CENTCOM FOR CG CFC-A, CG CJTF-76, POLAD, JICENT

NSC FOR JWOOD

TREASURY FOR ABAUKOL, BDAHL, AND MNUGENT

MANILA PLEASE PASS ADB/USED

PARIS FOR USOECD/ENERGY ATTACHE

OSD FOR SHIVERS, SHINN

COMMERCE FOR DEES, HAMROCK, AND FONOVIDCH

SENSITIVE

SIPDIS

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SUBJECT: AFGHANISTAN: UPDATE ON USG AND OTHER ENERGY PROJECTS -
POWER PROJECTS EXHIBITING RESULTS

¶1. (SBU) Summary. Over the past six weeks, long and meandering negotiations on Power Purchase Agreements (PPA) with Afghanistan's neighbors have been successfully concluded, and positive developments with regard to Kajaki, the 100MW GENSET plant, and related distribution systems have occurred. Current total power capacity in Afghanistan is estimated at 450MW with 75% of this capacity operational. Thirty percent of power produced is lost in distribution. If current plans materialize, by January 2009, an additional 220MW of power will come online, representing an almost 50% increase. Furthermore, spring 2009 will see another 35MW online, and by April 2010, another 450MW of imported power will be delivered, resulting in more than a doubling of total power availability within 18-20 months. In addition, initiatives concentrating on electricity distribution efficiency and revenue collection are in process or being fast-tracked. This progress is noteworthy and highlights that the significant investment the USG has made in the energy sector is providing tangible results. Nevertheless, any enthusiasm should be tempered, as cooperation by many actors will be required to realize current plans; further focus and intensity are required to keep the energy train on track. End Summary.

KABUL 100 MW GENERATOR SETS (GENSETS)

¶2. (SBU) - Delivery of the GENSETS is now scheduled in two segments, mid-September and again 2-4 weeks later, representing a delay of 4 weeks. Delay will not affect the production of 70MW by end of 2008 or an additional 35MW in spring of 2009. Other preparations, including delivery of smaller parts and construction of camp, fuel tanks, and related buildings, are on schedule. Emboffs will visit the plant within the next week to monitor and report on progress towards completion.

FUEL FOR GENSETS REMAINS AN ISSUE

¶13. (SBU) - The Islamic Republic of Afghanistan (IRoA) maintains its current budget will not allow for purchase of the required \$45 million in fuel (to run 100MW Kabul GENSETS only) through the end of the IRoA fiscal year (March 31, 2009). In talks with senior Afghan officials, Embassy Kabul has stressed that the IRoA made a written commitment to purchase fuel as part of the agreement for USAID to fund GENSETS and other plants and that it must fulfill this commitment. We hope to learn more about Afghan intentions following a budget review slated for late September. Delivery of electricity to Kabul during the critical winter months is imperative to boost recognition that the IRoA and Coalition efforts at development are producing tangible results. IRoA backsliding on funding the fuel requirements of GENSETS could set a negative precedent for future cooperative funding agreements. Afghan funding constraints are related to poor billing of and tariff collection from customers on existing electricity distribution. The USG will therefore seek a strong policy commitment by the IRoA to support a USAID initiative to commercialize the Kabul Electricity Division of DABS, the IRoA's national electrical utility (see para 7), which aims to strengthen billing and collection.

NORTH EAST POWER SYSTEM (NEPS) - TURKMEN COMPONENT

¶14. (SBU) - A recent Joint Working Group (JWG) meeting has laid the foundation for a \$160 million USAID/Afghanistan investment to

KABUL 00002546 002 OF 004

construct transmission lines and substation for import of up to 300MW of power by early 2011. The next working group meeting will be held in October 2008 (in Ashgabat), with a goal of working toward finalizing an Afghan-Turkmen PPA by March 2009.

NEPS - UZBEK COMPONENT

¶15. (U) - Negotiations on funding for the construction of a 43 Km, 220kV transmission line were concluded in late August. The IRoA will pay \$19 million to the Uzbeks, and if the construction schedule holds, 150MW of power should begin to flow into the NEPS and Kabul by the end of January 2009. The transmission line on the Uzbek side of the border will be owned by the IRoA, but maintained by the Uzbeks. Under an existing ten-year power PPA between the IRoA and the Government of Uzbekistan, the IRoA currently pays \$0.04/kWh for 28MW of imported power which is supplied to Mazar-e-Sharif via an existing 110kV line. The energy price under this PPA is renegotiated annually, in December of every year. We understand that this PPA will also be utilized to govern the sale of the 150MW to be supplied starting in January 2009 based on a new price to be negotiated in December 2008. The IRoA and the Government of Uzbekistan plan to negotiate a new PPA in May 2009 which will govern the import of all power from Uzbekistan once an additional 150MW is added by the end of 2009.

NEPS - TAJIKISTAN COMPONENT

¶16. (U) - In late August, an IRoA delegation headed by Minister of Energy and Water (MEW) Khan, concluded a PPA with Tajikistan for the import of 300MW of power from April through October each year, effective April 2010, at \$0.035/kWh. The initial term of the PPA will run through 2014 with a 2% price increase per year, at which point the PPA will be reviewed for a possible increase in power and/or extended delivery schedule. The PPA signing immediately releases Asian Development Bank (ADB) funding for the construction of the transmission line on both sides of the border under the supervision of Snowy Mountains Engineering Corporation (SMEC) of Australia. Line completion is expected in April 2010.

17. (SBU) - Contract award for the procurement of the NLCC was executed on June 10 with an expected completion date of February 28, 2010. The contractor, Louis Berger/Black & Veatch (LBG/B&V), is working on an Invitation for Bids (IFB) for the NLCC building which is projected to be awarded by December 2008. Since Uzbek power is expected to flow by the end of January 2009, a temporary, less complicated, system will be put in place to handle the necessary dispatch, communications, and control until the NLCC has been completed. The overall objective is for the NEPS voltage level to be maintained within international permissible limits, for system losses to be minimized, and to maximize the power transmitted over the NEPS.

COMMERCIALIZATION OF DABS, THE NATIONAL ELECTRIC UTILITY

18. (SBU)- Improving the ability of the IRoA to pay for electric power imports, diesel fuel, salaries for utility staff, and other

KABUL 00002546 003 OF 004

operating and maintenance costs of providing electricity services to customers will mitigate their reliance on donor assistance and help DABS become a viable and financially self-sufficient entity. Hiring an operating contractor and putting the firm in charge of the Kabul system will lead to improved system management, more effective billing and collection, and enhanced revenues to cover costs. To that end, USAID has received informal IRoA agreement to assist DABS with the award of an operating contract, dubbed the Kabul Commercialization Contract (KCC), for the Kabul Electricity Distribution (KED) system. Tender documents with specific operating contract terms are expected to be ready by the end of November 2008.

A commercialization contractor for the Kabul network should be on board within the next six to nine months.

SOUTH EAST POWER SYSTEM (SEPS)

19. (SBU)- In one of the largest logistical operations of its kind since World War II, a combined NATO force delivered the 8 large pieces of Turbine #2 to the Kajaki Dam site in early September. The 100-vehicle convoy travelled at 5 Km per hour, reaching Kajaki five days after departing Kandahar. Work on bringing Turbine #2 online is expected to last 14-18 months and will add an additional 18.5MW of output to the dam. Work on Turbine #3, currently being rehabilitated, will be completed in April 2009. Total output of the dam will be 51MW by September 2009, 16.5MW of which is being produced now, and will ultimately benefit up to 1.7 million people in southern Afghanistan. In conjunction with the turbine work, USAID has released an RFP to rehabilitate the 110 kV transmission line from Kajaki to Kandahar and the 20 kV line to Musa Qala. The bids are due mid September, with an award anticipated by the end of the month. Such work is crucial to mitigate the estimated 30-40% loss of power currently being experienced. The length of time to rehabilitate the line will be determined by an initial assessment to be performed by the contract awardee, including an evaluation of the degree to which security is permissive along the corridors where work is to be performed.

SHEBERGHAN GAS FIELDS TESTING

10. (SBU) - ARAR, the Turkish-American subcontractor chosen for the gas well testing, will commence drilling o/a October 1. The revised timeline and cost structure for work notes that fewer wells than originally anticipated will be re-opened and tested within the time frame and budget authorized under the Task Order, though these should provide sufficient information on commercial viability of the gas field. The test results will be reported o/a April 15, 2009. Once gas reserves have been established (overall consensus remains

that these wells will be productive based on the fact they lie in the same basin as very productive Turkmenistan gas wells), well rehabilitation will need to proceed to re-establish natural gas production. Moreover, options for construction of a gas power plant will need to be explored, including reaching out to other donors such as ADB, OPIC and the private sector for construction of a power plant which would provide electricity to northern Afghanistan and Kabul through the NEPS. In a recent meeting with Minister Adel of the Ministry of Mines (MOM), Econoff and EconCouns learned that the MOM has in reserve \$26 million from an ADB loan to test and develop the gas fields. Minister Adel remains keen to move forward with project(s) and seemed open to OPIC participation. Minister Adel was confident significant natural gas reserves would be found. Econoff is currently following up on a request for submission of technical questions to OPIC made by Bearing Point advisors to the Minister of

KABUL 00002546 004.3 OF 004

Finance. Those questions should jump start seemingly dormant talks regarding OPIC participation in project.

WOOD